

**Summary of Consolidated Financial Results**  
**for the First Nine Months of the Fiscal Year Ending March 31, 2014**  
**<under Japanese GAAP>**

January 30, 2014

Company name: **Sasebo Heavy Industries Co., Ltd.**  
 Listing: Tokyo Stock Exchange 1st Section  
 Fukuoka Stock Exchange  
 Stock code: 7007  
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Scheduled date to file quarterly securities report: February 13, 2014

Scheduled date to commence dividend payments: –

Preparation of supplementary material on quarterly financial results: None

Holding of quarterly financial results presentation meeting: None

*Figures less than one million yen have been omitted.*

**1. Consolidated financial results for the first nine months of the fiscal year ending March 31, 2014 (From April 1, 2013 to December 31, 2013)**

**(1) Consolidated operating results (cumulative)** *(Percentages indicate year-on-year changes.)*

	Net sales		Operating income		Ordinary income		Net income	
	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>millions of yen</i>	%
For the nine months ended								
December 31, 2013	22,949	(18.2)	(440)	–	(261)	–	(999)	–
December 31, 2012	28,044	(45.4)	(1,564)	–	(1,507)	–	(1,247)	–

Note: Comprehensive income

For the nine months ended December 31, 2013: ¥(510) million [–%]

For the nine months ended December 31, 2012: ¥(1,238) million [–%]

	Net income per share	Diluted net income per share
For the nine months ended	<i>yen</i>	<i>yen</i>
December 31, 2013	(6.23)	–
December 31, 2012	(7.77)	–

**(2) Consolidated financial position**

	Total assets	Net assets	Equity ratio
As of	<i>millions of yen</i>	<i>millions of yen</i>	%
December 31, 2013	57,093	26,834	47.0
March 31, 2013	65,795	27,345	41.6

Reference: Equity

As of December 31, 2013: ¥26,834 million

As of March 31, 2013: ¥27,345 million

## 2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total
	<i>yen</i>	<i>yen</i>	<i>yen</i>	<i>yen</i>	<i>yen</i>
For the year ended March 31, 2013	–	0.00	–	0.00	0.00
For the year ending March 31, 2014	–	0.00	–		
For the year ending March 31, 2014 (Forecast)				0.00	0.00

Note: Revision of the forecast most recently announced: None

## 3. Consolidated forecast for the fiscal year ending March 31, 2014 (From April 1, 2013 to March 31, 2014)

*(Percentages indicate year-on-year changes.)*

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>yen</i>
For the year ending March 31, 2014	30,000	(16.5)	(2,400)	–	(2,800)	–	(3,600)	–	(22.43)

Note: Revision of the forecast most recently announced: None

### \* **Notes**

- (1) **Changes in significant subsidiaries during the first nine months of the current fiscal year**  
(changes in specified subsidiaries that affected the scope of consolidation): None
- (2) **Application of special accounting for preparing the quarterly consolidated financial statements:** None
- (3) **Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections**
  - A. Changes in accounting policies due to adoption of revised accounting standards: None
  - B. Changes in accounting policies due to other reasons: None
  - C. Changes in accounting estimates: None
  - D. Restatement of prior period financial statements after error corrections: None

### (4) **Number of issued shares (common stock)**

- A. Total number of issued shares at the end of the period (including treasury stock)

As of December 31, 2013	161,955,000 shares
As of March 31, 2013	161,955,000 shares

- B. Number of treasury shares at the end of the period

As of December 31, 2013	1,491,440 shares
As of March 31, 2013	1,488,730 shares

- C. Average number of outstanding shares during the period  
(cumulative from the beginning of the fiscal year)

For the nine months ended December 31, 2013	160,464,043 shares
For the nine months ended December 31, 2012	160,467,585 shares

**\* Indication regarding execution of quarterly review procedures**

This quarterly financial results report is exempt from the quarterly review procedures pursuant to the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly financial results report, the quarterly review procedures are in progress.

**\* Explanation and other specific matters concerning proper use of the forecast**

All forward-looking statements in this document are based on information currently available and on certain assumptions that we consider reasonable and include elements of risk and uncertainty. The Company makes no assurances concerning their realization. Therefore, investors are advised and recommended not to base their investment decisions on the statements in this document alone. Please be informed that as a result of various factors, actual financial results may differ considerably from these financial forecasts. Factors affecting actual financial results include the economic situation surrounding the Sasebo Group and the foreign exchange rate of the yen against the US dollar.

Attached Materials

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## **1. Qualitative information on settlement of accounts for the first nine months**

### **(1) Information on operating results**

During the first nine months of the fiscal year ending March 31, 2014, there were signs that the Japanese economy was moving gradually toward recovery, mainly on the back of improvements in corporate earnings and a gradual increase in capital investments reflecting a correction in the strength of the yen in line with economic measures implemented by the administration of Prime Minister Shinzo Abe. Overseas economies, on the other hand, were afflicted by concerns including the direction of the fiscal problem in the U.S. and future slowdown of the growth of emerging countries, despite signs that the European economy had bottomed out. Japan faces the risk that such deterioration in overseas economies could create downward pressure on the economy. As a result, the economic outlook remains unclear.

Under such circumstances, the Sasebo Group posted consolidated orders received of ¥31,981 million, an increase of 29.7% from the same period of the previous fiscal year, owing to new shipbuilding orders for 8 units, among other factors. Consolidated net sales amounted to ¥22,949 million, decreasing 18.2% from the same period of the previous fiscal year because of progress on low-priced new shipbuilding orders. As a result, the consolidated order backlog as of December 31, 2013 was ¥40,751 million, an increase of 8.2% from the same period of the previous fiscal year. In terms of income, the Group posted a consolidated operating loss of ¥440 million (vs. consolidated operating loss of ¥1,564 million in the same period of the previous fiscal year) due to the decrease in provision for loss on construction contracts mainly in line with the improved profit prospects of new shipbuilding orders received in US dollars as a result of a move towards yen depreciation. The Group posted a consolidated ordinary loss of ¥261 million (vs. consolidated ordinary loss of ¥1,507 million in the same period of the previous fiscal year) due to the recording of foreign exchange gains and others. In addition to the aforementioned, after recording extraordinary loss associated with the implementation of the voluntary retirement program and income taxes, consolidated net loss was ¥999 million (vs. consolidated net loss of ¥1,247 million in the same period of the previous fiscal year).

Results by segment are as follows.

#### **(a) Shipbuilding**

The Group posted orders received of ¥26,905 million in the shipbuilding business, a 24.4% increase from the same period of the previous fiscal year. Included in this amount were new shipbuilding orders for a total of 8 units, consisting of 7 units of 77,000 DWT bulk carriers and 1 unit of 85,000 DWT bulk carrier, as well as ship repairs for the Japan Maritime Self-Defense Force, United States Navy vessels, and commercial vessels. Net sales amounted to ¥19,608 million, decreasing 21.4% from the same period of the previous fiscal year as a result of progress on low-priced new shipbuilding orders. The shipbuilding business posted a segment loss of ¥870 million (vs. segment loss of ¥1,787 million in the same period of the previous fiscal year), due to the decrease in provision for loss on construction contracts mainly in line with the improved profit prospects of new shipbuilding orders received in US dollars as a result of a move towards yen depreciation. New ships delivered during the first nine months of the current fiscal year totaled 5 units, consisting of 4 units of 75,000 DWT bulk carriers and 1 unit of 85,000 DWT bulk carrier. As a result, the order backlog for new shipbuilding came to 12 units.

#### **(b) Machinery**

The Group posted orders received of ¥3,919 million in the machinery business, an increase of 80.7% from the same period of the previous fiscal year, representing equipment-related work in the areas of equipment for marine use and general industrial machinery, etc. This was mainly the result of strong growth in orders received for tank systems for LPG ship use. Net sales amounted to ¥2,184 million, decreasing 1.3% from the same period of the previous fiscal year mainly as a result of the impact of lower crankshaft prices. The machinery business posted a segment loss of ¥94 million (vs. segment loss of ¥167 million in the same period of the previous fiscal year).

(c) Others

The “Others” business segment is comprised mainly of meal delivery service, etc. Orders received and net sales were both ¥1,156 million, an increase of 32.2% from the same period of the previous fiscal year. Segment profit was ¥28 million, a decrease of 23.0% from the same period of the previous fiscal year.

**(2) Information on financial position**

(Total assets)

Total assets were ¥57,093 million, a decrease of ¥8,701 million from the previous fiscal year-end. This was mainly due to a decrease in cash and deposits resulting from repayments of loans. Current assets were ¥33,063 million, a decrease of ¥6,224 million from the previous fiscal year-end and non-current assets were ¥24,030 million, a decrease of ¥2,476 million from the previous fiscal year-end.

(Liabilities)

Total liabilities were ¥30,259 million, a decrease of ¥8,190 million from the previous fiscal year-end. This was mainly due to repayments of loans. Current liabilities were ¥20,440 million, a decrease of ¥479 million from the previous fiscal year-end. Non-current liabilities were ¥9,818 million, a decrease of ¥7,710 million from the previous fiscal year-end.

(Net assets)

Total net assets were ¥26,834 million, a decrease of ¥510 million from the previous fiscal year-end. This was mainly due to a decrease in retained earnings resulting from the recording of consolidated net loss.

**(3) Information on consolidated forecast and other forward-looking statements**

In the outlook of the Japanese economy, expectations for fiscal and monetary policies taken by the government have driven depreciation in the yen, and signs of economic recovery, though modest, are emerging. On the other hand, Japan not only faces the risk of downward pressure from uncertainties surrounding overseas economies, including the fiscal problem in the U.S. and the future direction of emerging countries, but also concerns that the confirmation of a hike in consumption tax scheduled for April 2014 could have an adverse effect on the economy. As a result, the economic outlook remains unclear.

In the shipbuilding industry, new shipbuilding prices continue to be at a low level amid the ongoing surplus supply of new ships and low sea-freight charges. Furthermore, regarding orders received, as new shipbuilding completions continue to be at the highest ever level, the Company expects that competition for new orders received will further intensify in future. Given the aforementioned, major challenges facing the ship yards in Japan are implementation of further cost reductions to face off against South Korea and China, strengthening of competitiveness by developing high value-added vessels, and passing down of technical skills from the experienced employees to younger generations. In the machinery industry, although the Company expects demand related to reconstruction of the areas affected by the Great East Japan Earthquake, there is a concern over worsening profitability in equipment for marine use, including crankshafts, a core product of the Company, due to the slowdown in the new shipbuilding market.

To address these difficult business circumstances, the Group formulated “a new medium term business plan” and publically announced it on May 17, 2013. Under this plan, the Group’s basic policy is to maintain and expand net sales by transforming the composition of its sales while also establishing an earnings structure that is resistant to environmental changes by reviewing and strengthening the structure of its operations. Under the plan, the Group aims to return to profitability in the 2015 fiscal year and attain stable profitability in or after the 2016 fiscal year by working together as a whole group.

With respect to the consolidated forecast for the fiscal year ending March 31, 2014, there are no changes to the forecast announced on August 12, 2013 as it is presently difficult to forecast the trend of the foreign exchange rates, etc. If there is any change in the future, it will be appropriately disclosed.

**2. Matters on summary information (notes)**

**(1) Changes in significant subsidiaries during the first nine months of the current fiscal year**

No items to report

**(2) Application of special accounting for preparing the quarterly consolidated financial statements**

No items to report

**(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections**

No items to report

### **3. Quarterly consolidated financial statements**

#### **(1) Quarterly consolidated balance sheets**

*(in millions of yen; the mark before a figure indicates the amount is negative)*

	As of March 31,2013	As of December 31,2013
<b>Assets</b>		
Current assets		
Cash and deposits	25,403	21,734
Notes and accounts receivable-trade	11,489	8,197
Short-term investment securities	40	-
Merchandise and finished goods	15	16
Work in process	619	1,748
Raw materials and supplies	346	353
Other	1,371	1,012
Total current assets	39,287	33,063
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,064	7,720
Land	5,753	5,637
Other, net	5,935	5,297
Total property, plant and equipment	19,753	18,655
Intangible assets	200	171
Investments and other assets		
Investment securities	3,241	3,538
Other	3,577	1,930
Allowance for doubtful receivables	265	265
Total investments and other assets	6,553	5,203
Total non-current assets	26,507	24,030
Total assets	65,795	57,093
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	9,926	10,219
Notes payable - facilities	61	99
Short-term loans payable	5,369	4,619
Income taxes payable	17	20
Advance received	1,493	2,695
Provision for construction warranties	29	28
Provision for loss on construction contracts	2,325	1,536
Other	1,698	1,220
Total current liabilities	20,920	20,440



(in millions of yen; the mark before a figure indicates the amount is negative)

	As of March 31,2013	As of December 31,2013
<b>Non-current liabilities</b>		
Long-term loans payable	13,522	6,128
Deferred tax liabilities	325	452
Provision for retirement benefits	3,428	2,973
Provision for special repairs	34	41
Other	218	223
Total non-current liabilities	<u>17,529</u>	<u>9,818</u>
Total liabilities	<u>38,449</u>	<u>30,259</u>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	8,414	8,414
Capital surplus	5,148	5,148
Retained earnings	14,638	13,638
Treasury stock	977	978
Total shareholders' equity	<u>27,222</u>	<u>26,222</u>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	239	907
Deferred gains or losses on hedges	116	295
Total accumulated other comprehensive income	<u>122</u>	<u>612</u>
Total net assets	<u>27,345</u>	<u>26,834</u>
Total liabilities and net assets	<u>65,795</u>	<u>57,093</u>

**(2) Quarterly consolidated statements of income and comprehensive income**  
**Quarterly consolidated statements of income (cumulative)**

*(in millions of yen; the mark before a figure indicates the amount is negative)*

	For the nine months ended December 31,2012	For the nine months ended December 31,2013
Net sales	28,044	22,949
Costs of sales	27,635	21,988
Gross profit	408	960
Selling, general and administrative expenses	1,972	1,401
Operating loss	1,564	440
Non-operating income		
Interest and dividends income	63	63
Foreign exchange gains	311	408
Other	23	16
Total non-operating income	397	488
Non-operating expenses		
Interest expenses	327	199
Other	14	109
Total non-operating expenses	341	308
Ordinary loss	1,507	261
Extraordinary income		
Gain on sales of noncurrent assets	595	59
Other	98	0
Total extraordinary income	693	59
Extraordinary loss		
Loss on sales of non-current assets	-	13
Loss on disposal of non-current assets	13	27
Loss on valuation of investment securities	144	-
Special extra retirement payments	-	692
Other	20	40
Total extraordinary losses	178	773
Loss before income taxes	993	975
Income taxes - current	16	24
Income taxes for prior periods	237	-
Total income taxes	254	24
Loss before minority interests	1,247	999
Minority interests in income	-	-
Net loss	1,247	999

## Quarterly consolidated statements of comprehensive income (cumulative)

(in millions of yen; the mark before a figure indicates the amount is negative)

	For the nine months ended December 31,2012	For the nine months ended December 31,2013
Loss before minority interests	1,247	999
Other comprehensive income		
Valuation difference on available-for-sale securities	7	668
Deferred gains or losses on hedges	2	179
Total other comprehensive income	9	489
Comprehensive income	1,238	510
Comprehensive income attributable to		
Owners of the parent	1,238	510
Minority interests	-	-

### (3) Notes to quarterly consolidated financial statements

#### (Notes on premise of going concern)

No items to report

#### (Notes on significant changes in the amount of shareholders' equity)

For the nine months ended December 31, 2013

No items to report

#### (Segment information)

[Segment information]

I. For the nine months ended December 31, 2012

Information on net sales and profit or loss amount by reportable segment

(in millions of yen)

	Reportable segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in the quarterly consolidated statement of income (Note 3)
	Shipbuilding	Machinery	Total				
Net sales							
Outside customers	24,955	2,213	27,169	875	28,044	–	28,044
Inter-segment sales and transfers	37	–	37	1,115	1,152	(1,152)	–
Total	24,993	2,213	27,206	1,990	29,196	(1,152)	28,044
Segment profit or (loss)	(1,787)	(167)	(1,955)	37	(1,917)	353	(1,564)

- (Notes) 1. The "Others" category is a business segment not included in the reportable segments. It includes meal delivery service, golf course business and transportation business, etc.
2. Selling, general and administrative expenses and other corporate expenses are distributed to each segment based on budget amounts and any budgetary variances between actual expenses and the budgeted amount are not distributed. These budgetary variances of ¥353 million are recorded as adjustment to segment profit.
3. Segment profit or (loss) is adjusted with operating loss in the quarterly consolidated statement of income.

II. For the nine months ended December 31, 2013

Information on net sales and profit or loss amount by reportable segment

(in millions of yen)

	Reportable segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in the quarterly consolidated statement of income (Note 3)
	Shipbuilding	Machinery	Total				
Net sales							
Outside customers	19,608	2,184	21,793	1,156	22,949	–	22,949
Inter-segment sales and transfers	–	0	0	1,134	1,135	(1,135)	–
Total	19,608	2,185	21,793	2,291	24,084	(1,135)	22,949
Segment profit or (loss)	(870)	(94)	(965)	28	(936)	496	(440)

- (Notes) 1. The "Others" category is a business segment not included in the reportable segments. It includes meal delivery service, golf course business and transportation business, etc.
2. Selling, general and administrative expenses and other corporate expenses are distributed to each segment based on budget amounts and any budgetary variances between actual expenses and the budgeted amount are not distributed. These budgetary variances of ¥496 million are recorded as adjustment to segment profit.
3. Segment profit or (loss) is adjusted with operating loss in the quarterly consolidated statement of income.

## 4. Supplemental information

### Production, orders received and sales

#### 1) Production

(in millions of yen, unless otherwise noted)

	For the nine months ended December 31, 2012		For the nine months ended December 31, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	25,195	87.6	19,808	82.2	(5,386)	(21.4)
Machinery	2,700	9.4	3,130	13.0	430	15.9
Others	875	3.0	1,156	4.8	281	32.2
Total	28,770	100.0	24,096	100.0	(4,674)	(16.2)

#### 2) Orders received

(in millions of yen, unless otherwise noted)

	For the nine months ended December 31, 2012		For the nine months ended December 31, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	21,619	87.7	26,905	84.1	5,285	24.4
Machinery	2,169	8.8	3,919	12.3	1,750	80.7
Others	875	3.5	1,156	3.6	281	32.2
Total	24,664	100.0	31,981	100.0	7,317	29.7

#### 3) Order backlog

(in millions of yen, unless otherwise noted)

	As of December 31, 2012		As of December 31, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	35,792	95.0	37,384	91.7	1,592	4.4
Machinery	1,879	5.0	3,366	8.3	1,487	79.1
Others	–	–	–	–	–	–
Total	37,671	100.0	40,751	100.0	3,079	8.2

(Notes) 1. Order backlog is described by the complete contract method. Of order backlog amounts as of December 31, 2013, ¥7,814 million for shipbuilding and, of those as of December 31, 2012, ¥14,818 million for shipbuilding are recorded as sales by the percentage-of-completion method.

2. A ¥917 million increase resulting from exchange rate fluctuations in the foreign currency-denominated order backlog as of the previous fiscal year-end has been factored into the consolidated order backlog as of December 31, 2013.

#### 4) Sales

(in millions of yen, unless otherwise noted)

	For the nine months ended December 31, 2012		For the nine months ended December 31, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	24,955	89.0	19,608	85.5	(5,347)	(21.4)
Machinery	2,213	7.9	2,184	9.5	(28)	(1.3)
Others	875	3.1	1,156	5.0	281	32.2
Total	28,044	100.0	22,949	100.0	(5,094)	(18.2)